

**West of England Local Enterprise Partnership
Board meeting – June 12th 2020**

Future scenarios

Purpose of the report

1. To provide the LEP Board with an overview of the national and regional trends that are emerging in the recovery from the Covid-19 crisis to support a discussion of potential future scenarios and the possible opportunities and challenges for the region. It also provides an update on progress of the Economic Recovery Taskforce subgroups.
2. Based on this information, the discussion at the Board meeting will focus on building a LEP Board view of a small number of possible future scenarios that can be used as the basis of recovery planning.

Recommendation

That the LEP Board consider the following questions:

- Do the Board recognise the trends outlined from their own experience? Are there other things missing?
- Given these trends at national and regional level what are the key opportunities and challenges for the region?
- Which dimensions do the LEP Board consider to be most important to consider in developing possible future scenarios for recovery planning?

Background: Economic Recovery Taskforce subgroup progress

3. Sector leads have been partnered with their WECA contact to support them in convening conversations across their sector. They will be capturing conversations to understand sector-specific challenges and opportunities. The structure will follow three phases:
 - crisis response and exit from lockdown;
 - adaptation and resilience;
 - renewing and growing.
4. Sector conversations and intelligence gathering has commenced and will continue this week, before the next Taskforce meeting on 16 June. The focus of the meeting will be:
 - national activities and our reporting back to government;
 - using future scenarios to develop the principles to shape recovery; and
 - initial feedback from sector-based discussions.

Scenario planning

5. The pandemic is creating significant damage to the economy, and the outlook over the next few months and year is highly uncertain. However, some aspects of the outlook have started to emerge:
 - Government is aiming to continue easing lockdown restrictions, with retail and schools gradually reopening in June and many of the remaining businesses following in July;
 - work from home will continue where possible, and businesses will need to maintain social distancing on their premises for several months to come, potentially until a vaccine or treatment is available for covid;
 - the removal of restrictions may allow the economy to rebound faster than from previous recessions, given previous strength, but significant challenges will remain for some sectors and it is likely to be some time before business and consumer confidence returns.
6. Two key scenarios provide an initial baseline for the level of economic damage that may be occurring, although these are not forecasts:
 - the **Office for Budget Responsibility** in April set out a scenario of a 35% drop in output in Quarter 2 (Q2), followed by a rebound to growth of 27% in Q3. This would produce an overall drop of 12.8% in GDP in 2020, based on three months of lockdown and three months of gradual return to normality. Unemployment would rise to 10% initially before falling back gradually;
 - the **Bank of England** illustrative scenario similarly sets out a sharp fall and rebound, with a 14% drop in GDP in 2020, and unemployment at 8%. A quarter of spending lost during lockdown might be made up gradually later.
7. Beyond the immediate challenges of the lockdown period, there are a number of dimensions of uncertainty with implications for the West of England's economy in the coming months. Although the precise scale of these is unclear, generally the direction of travel is starting to emerge.
8. **Dimension 1: duration of recession** will determine the level of long-term damage in unemployment and business failures. The length of the recession depends directly on the duration of social distancing measures, including the possibility of a second spike of infections, but also on how quickly business and consumer spending resumes as restrictions are lifted. On current plans, non-essential retail is due to re-open in June, and government aims to re-open all other businesses from July, with ongoing safety restrictions. For many businesses, ongoing restrictions will severely curtail capacity and some may still not be able to operate viably. Clearly, a second spike in infections would create significant further damage: the Bank of England estimates that each additional two weeks of lockdown cuts annual GDP by an additional 1¼%. Moreover, consumers and businesses are likely to be cautious in spending, given job losses and continued uncertainty.

9. **Dimension 2: Government's approach to recovery** will shape the context for the region's recovery plan, and opportunities available to businesses. The Government has enacted a significant short-term support and stimulus package, but is clear that such support cannot continue indefinitely. There is currently no clear statement of the medium- to long-term approach to stimulus. The Prime Minister has ruled out a return to austerity measures, and 'levelling up' appears to remain a priority, but uncertainty remains on the scale and scope of any potential stimulus package, and the extent to which implementation will be decentralised.
10. **Dimension 3: Economic and social trends** may be accelerated, and the crisis will change the behaviour of consumers and businesses in unpredictable ways. Some pre-existing trends may be accelerating, and businesses may also look to reshape their operations to build resilience and competitiveness, reacting to altered market conditions. These changes present both challenges and opportunities for businesses. Potential trends affecting broad parts of the economy could include:
- faster digitisation, with new online business models, more online retail, and persistently higher levels of home working;
 - deglobalisation, as businesses and government seek to increase resilience by 're-shoring' or diversifying supply chains;
 - health impacts on the workforce, both directly as a result of covid and mental health issues arising from the lockdown; and
 - widening inequality, as the health and economic harms from the pandemic tend to fall disproportionately on certain groups and people with lower pay, reinforcing existing disparities. This may be compounded by the pre-existing shift towards the 'knowledge economy', which may reduce opportunities for those made redundant in the current crisis.
11. **Dimension 4: Sector-specific impacts** could have significant effects on the region's firms. The effects of the pandemic vary considerably across different sectors; of particular relevance to the West of England are:
- tourism and the visitor economy is hard hit by the reliance on face-to-face contact, vulnerability to loss of peak season revenues, and expected slow return of international travel;
 - aerospace also faces a long-term challenge. Falls in air travel have led airlines to anticipate two or more years of reduced capacity, and manufacturers including Airbus and Rolls Royce have begun making redundancies;
 - shifts to online retail and drops in footfall could accelerate changes to High Streets, with effects felt differently across the region.

Q: Do the Board recognise the trends outlined from their own experience? Are there other things missing?

Opportunities and challenges for the region

12. The emerging shape of the economic recovery, sketched out in the scenarios above, suggest some key opportunities for the West of England to explore in designing our recovery plan. Residents and businesses alike have changed behaviour dramatically during the crisis, and there may be scope to turn this agility and inventiveness into long-term support for the objectives of clean and inclusive growth:
- embedding greater technology and training adoption in businesses. Retaining beneficial parts of lockdown working practices, and supporting businesses to adapt and innovate, will help strengthen resilience and also build new business models;
 - taking advantage of the region's strengths in creative, digital, and advanced engineering industries to exploit growth opportunities emerging nationally. Potential examples might include building regional manufacturing supply chain clusters to enhance resilience, and developing new digital tools;
 - shaping recovery planning to encourage businesses to transition to low-carbon models. Taking advantage of the agility mindset in the current crisis may present opportunities to enhance resilience for the climate emergency;
 - embedding inclusion, to ensure that recovery helps low paid key workers, encouraging access to work, good working practices, and career progression; and
 - seeking to embed positive change among residents, most notably in travel patterns. More sustainable travel could be promoted, potentially in response to greater home working, but also by entrenching higher levels of walking and cycling.

Q: Given these trends at national and regional level, what are the key opportunities and challenges for the region?

Discussion:

- **Which dimensions do the LEP Board consider to be most important to consider in developing possible future scenarios for recovery planning?**
- **Which dimensions are most relevant for the specific circumstances of the West of England?**